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Organic Products

Is the CAP reform a boost for organic production?

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Approved by:

Norval E. Francis, Jr.

U.S. Mission to the EU

Prepared by:

Karin Bendz

Report Highlights:

The 2003 CAP reform has no specific recommendations for subsidizing organic farming. However many of the measures in the CAP reform have the potential to stimulate organic production.

The main benefit should come from the change from a support system based on a market support and production linked subsidies to a system based on area farmed. Also, organic farmers are likely to be less affected by modulation, at the same time as they will benefit from measures financed by modulation.

Organic farming in the New Member States is expected to have a golden future.

Includes PSD Changes: No
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Since the 1990's the organic farming has developed rapidly in most of the Member States (MS). The organic farm sector grew about 25 percent a year between 1993 and 1998, and since 1998 it is estimated to have grown around 30 percent a year. However, growth has slowed down recently. In the MS of the European Union 5.69 million hectares are under organic management and there were more than 143,000 organic farms as of 12/31/03. This represents about 4 percent of the agricultural area and 2 percent of the farms in the EU. The MS with the highest number of farms and the greatest number of hectares is Italy, which has about one fifth of the EU's organic land and more than a quarter of the organic farms in the EU. There are substantial differences between individual MS regarding the amount of organic farming. In Austria more than 12 percent of the agricultural land is under organic management whereas in France not even 2 percent is organic.

Land under organic management in the European Union (2003)

Member State	Hectares organic farming	Percent of Agricultural Area
Italy	1,052,002	6.86
Germany	734,027	4.30
Spain	725,254	2.84
U.K	695,619	4.42
France	550,000	1.86
Austria	328,803	12.90
Czech Republic	254,995	5.97
Greece	244,455	6.24
Sweden	207,488	6.80
Denmark	165,148	6.20
Finland	159,987	7.22
Portugal	120,729	3.17
Hungary	113,816	1.94
Slovakia	54,478	2.43
Poland	49,928	0.30
Latvia	48,000	1.92
Netherlands	41,865	2.17
Estonia	40,890	4.59
Ireland	28,514	0.65
Belgium	24,163	1.73
Lithuania	23,289	0.60
Slovenia	23,280	4.60
Luxemburg	3,002	2.00
Cyprus	166	0.12
Malta	14	N/A

Source: ZMP

While the 2003 CAP reform has no specific recommendations for subsidizing organic farming, many of the measures in the CAP reform have the potential to stimulate organic production, according to an analysis made by Agra Europe on a report from the European Commission.

According to the analysis, the main benefit of the CAP to organic farmers should come from the change from a support system based on market support and production linked subsidies to a system based on the area farmed. Organic farms received less payment under the traditional common market organizations and consequently will be less affected by modulation. And at the same time they should benefit more from measures financed by modulation.

Decoupling of payments from production favors more extensive farming systems, and to this extent the CAP reform benefits organic farming methods. In addition the exemption from the mandatory set-aside obligation for organic farmers is an improvement. Also, the governments have significant potential to provide support for organic production through the use of their "national envelopes". (See [GAIN E34095](#), Rural Development in the European Union)

According to the analysis, it is likely that the cross-compliance provisions will generally be easier to follow for organic farmers compared to conventional, and the new Rural Development (RD) policy should provide a number of options of potential benefit to organic producers.

As with other measures in the RD program, much depends on the willingness of the national governments to match the EU funding. The analysis states that without a uniformity of application by Member State, there is a potential danger that increasing differences in benefit to organic farming in different countries will lead to competitive imbalances.

The overall conclusion is that organic farming will benefit from the CAP-reform and that the sector will continue to increase its share of total output. About 4 percent of the total land area of the European Union is under organic management but there are large differences in the development stage of the organic sector between MS, partly due to differences in the policy environment.

The Commission reports that in all MS except Portugal and the U.K. the average payments per hectare are higher for organic than for the average of other environmental measures, however in several MS the average payment per hectare to organic farms has decreased, most notably in Denmark, France, Greece, Italy, Netherlands and Portugal.

Since organic production methods tend to be more labor intensive, due to pest and weed management and the livestock density, organic farms normally have to be larger than conventional ones to be able to provide the "critical mass" of organic output. Nearly all MS statistics indicate that organic farms are on average larger than conventional holdings. However, production area doesn't always correlate with market share. For example, while Italy has by far the largest organically cultivated area in Europe, it only ranks fourth in retail sales. Such discrepancies may be due to the fact that even within organic farming the intensity of land use varies widely from intensive farming to the more extensive grasslands, for example in the mountain areas in Austria. Also, organic farms tend to operate diversified non-agricultural activities in addition to the actual food production process. It is estimated that the EU organic food production industry accounts for more than 40 percent of the total world output of organic food.

The Commission report says that whether the organic production will achieve the full benefits of the new policy depends on the administration by governments of the MS, and that to maximize the positive effects on organic farming MS should be encouraged to opt for a regional approach to premium payments and to utilize national envelopes. Also it is important that the governments monitor the effect of the remaining significant common market programs on organic and other "environmentally friendly" farming systems, especially in the dairy and beef sectors, where both organic and conventional production could be disadvantaged by the 2003 reforms.

Given all these incentives it is likely that the organic production will grow in the EU. In Sweden, for example, the authorities have set as a goal to have 20 percent of the agricultural land, and 10 percent of the animal production under organic management by

2005. Also the organic action plan that was launched by the Commission in 2004 is helping the boost of organic production since it focuses a lot on consumer information and research.

Organic production in the New Member States (NMS) is according to AgraFood East Europe being offered a golden opportunity. While the farms in the NMS on average tend to be at a disadvantage in the agricultural mass production market, their smaller size is a positive advantage when it comes to quality production. And the potential for increased organic production is enormous.

On large farms in Western Europe it still pays better to mass produce crops and livestock products than to employ extra labor to produce organically, whereas in the NMS not only are there more plentiful supplies of skilled agricultural workers in many of the countries, but much of the land is likely to be more easily and more quickly converted to fulfill organic standards, for the simple reason that it has in many areas never been intensively farmed.

Nearly all of the output of organic food in the NMS is exported, since domestic consumption rates for organic food are low, principally because lower incomes generally mean lower consumption of this more expensive type of food.

The geographical position of Germany, easily Europe's biggest organic food market with annual sales of €1,3 billion, makes it a major target for increased organic sales for NMS exporters. The total European sales of organic products rose by around 5 Percent in 2003 to almost €11 billion, and the larger EU accession countries are expected to have a better chance of capitalizing on this increase through their subsequent inclusion in the EU Action Plan.

Organic food producers in Europe are considered to have the potential to have a massive advantage in domestic and foreign organic food markets due to the €80 million worth of government and EU annual research funding to sector. This is four times more funding than funding for organic food innovation in the rest of the world.

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